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MEMORANDUM

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TO: DOCKET CONTROL

FROM: Ernest G. Johnson
Director
for Utilities Division

2006 AUG -7 P 2:31

AZ CORP COMMISSION
DOCUMENT CONTROL

DATE: August 7, 2006

RE: COMPLIANCE ITEM - FIRST MONTHLY SYSTEM IMPROVEMENT
SURCHARGE REPORT AND STAFF AUDIT IN THE MATTER OF
EMERGENCY INTERIM RATE RELIEF FOR:

- Miracle Valley Water Company, Inc., Docket No. W-01646A-06-0010
- Cochise Water Company, Docket No. W-01868A-06-0010
- Horseshoe Ranch Water Company, Docket No. W-02235A-06-0010
- Crystal Water Company, Docket No. W-02316A-06-0010
- Mustang Water Company, Docket No. W-02230A-06-0010
- Coronado Estates Water Company, Docket No. W-01629A-06-0010
- Sierra Sunset Water Company, Docket No. W-02240A-06-0010

Introduction

In Decision No. 68667 (April 20, 2006), the Arizona Corporation Commission ("Commission") approved emergency interim rate relief for Miracle Valley Water Company, Inc., Cochise Water Company, Horseshoe Ranch Water Company, Crystal Eater Company, Mustang Water Company, Sierra Sunset Water Company and Coronado Estates Water company, previously owned by Johnny A. McLain (collectively the "McLain Systems"). The relief was a System Improvement Surcharge ("SIS") of \$9.00 per meter per month. The McLain System is being operated by a Commission appointed interim manager, Arizona Small Utilities Association ("ASUA").

The Decision requires ASUA to maintain a separate bank account in which it must deposit and withdraw all funds received pursuant to the SIS. ASUA must also file monthly reports with Docket Control, in Docket No. W-01642A-06-0010, as a compliance item in this matter, detailing how the SIS funds were spent, on which of the seven systems the money was spent, and a report of the remaining amounts due on accounts payable. The Decision also required Staff to conduct an audit of the SIS fund expenditures on an annual basis beginning April 1, 2007.

The purchase of the McLain Systems by Algonquin Water Resources of America, Inc. ("Algonquin") is currently pending before the bankruptcy court. The proposed sale has been approved by the Commission in Decision No. 68826. It is currently anticipated that the sale can be finalized and Algonquin can assume operations of the McLain Systems from ASUA within several months. Decision No. 68826 also requires that the SIS terminate the first day of the month after Algonquin has filed notification that the sale of the McLain Systems has closed.

Because of these changes, and to assist the transition from ASUA to Algonquin, Staff is proposing that it prepare the required monthly SIS reports for ASUA. The reports will be prepared by Staff in connection with a monthly audit of ASUA SIS activity rather than waiting until April 1, 2007, as provided in Decision No. 68667.

Initial Audit Results

On June 30, 2006, Staff conducted its first audit of the SIS account. ASUA has opened a separate bank account and made its first deposit on May 12, 2006. The total amount collected through June 19, 2006 was \$16,455.00. Disbursements through June 19, 2006, totaled \$6,690.57. The remaining balance is \$9,764.43. See Schedule JJD-1 for a summary of the SIS account activity and the current status of the accounts payable.

Staff reviewed the bank statement and invoices supporting the disbursements made thus far. Staff noted no unusual transactions with the exception of the following:

1. The SIS amounts collected must be transferred from ASUA's regular bank account where the total amount collected from each customer is deposited and this is appropriate. However, the first few transfers from the regular account to the SIS account were based upon estimates so as to permit payments for emergency repairs. ASUA is currently reconciling the early estimated deposits to those actually received. Staff will review the results on its next monthly audit.
2. Initial disbursements are in accordance with Decision No. 68667 requirements. Naturally, in the early stages of SIS collections it was not possible to make pro-rata disbursements among the seven systems. This will be monitored by Staff as additional funds are received.

Summary

Based upon Staff's initial review of the SIS account activity, ASUA is appropriately accounting for and disbursing funds in accordance with Commission Decision No. 68667. Staff will audit the SIS account on a monthly basis until the transition to Algonquin is completed.

Ernest G. Johnson, Director
Utilities Division

EGI:JJD:tdp

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Service List for: McClain Systems
Docket Nos. W-01646A-06-0010 et al

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SIS ACCOUNT ACTIVITY MAY 12 THROUGH JUNE 19, 2006

Total Amount Collected				16,455.00
<u>Disbursements</u>	<u>System</u>	<u>Date</u>		
New meters and repair parts	Various	5/26/2006	(807.57)	
New pump for Jaxel well site	Cochise	5/26/2006	(2,595.29)	
Repair parts - 6" casing	Cochise	6/1/2006	(400.00)	
Miscellaneous repair parts	Cochise	6/5/2006	(319.07)	
Labor/mileage/parts-repairs - Feb & Mar '06	Cochise	6/12/2006	(2,101.94)	
Labor/mileage Jaxel well monitoring	Cochise	Various	(466.70)	
Total Disbursements				<u>(6,690.57)</u>
Balance as of June 19, 2006				<u><u>9,764.43</u></u>

ACCOUNTS PAYABLE STATUS THROUGH JUNE 19, 2006

Accounts Payable as of April 30, 2006	240,484.88
Amounts Due ASUA	<u>(147,052.50)</u>
	93,432.38
Amounts Paid (6/12/2006 SIS payment)	<u>(45.23)</u>
Remaining Balance	<u><u>93,387.15</u></u>